FEDERAL RESERVE BANK *of* NEW YORK

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Minutes of the Investor Advisory Committee on Financial Markets

July 8, 2021

Federal Reserve Bank of New York

Committee Attendees:

William A. Ackman, Pershing Square Capital
Leda Braga, Systematica Investments
Ray Dalio, Bridgewater Associates, LP
Dawn Fitzpatrick, Soros Fund Management
Britt Harris, The University of Texas/Texas A&M Investment Management Company
William H. Heyman, The Travelers Companies, Inc.
Bob Jain, Millennium Management
Paul T. Jones, Tudor Investment Corp
Holly H. MacDonald, Bessemer Trust
Scott Minerd, Guggenheim Partners
John W. Rogers, Jr., Ariel Investments
Chris Rokos, Rokos Capital Management, LLP
David M. Rubenstein, The Carlyle Group

Federal Reserve Attendees:

John C. Williams
Anne Baum
John Clark
Jim Cronin
Samuel Earl
Naureen Hassan
Michael Held
Beverly Hirtle
Samuel Kanson-Benanav
Matthew Lieber
Lorie Logan
Rebecca McCaughrin
Meg McConnel
Michael Nelson
Matthew Raskin
Julie Remache
Ben Snodgrass
Kevin Stiroh
Benedict Wensley
Tim Wessel
Patricia Zobel

Discussion of the Economic and Inflation Outlook

Committee attendees generally expected the U.S. economy to exhibit very strong growth this year driven by the continued economic reopening and accommodative monetary policy. Attendees also discussed their outlooks on inflation. Some thought that inflation stemming from supply chain bottlenecks would prove transitory though a few suggested inflation data was likely to continue to surprise to the upside. Many highlighted the possibility of more persistent wage inflation, particularly amid continued labor market shortages. Views with respect to housing price pressures were mixed. Some suggested housing supply shortages could persist and lead to increases in measures of owners' equivalent rent, while others noted measures of housing affordability had improved and were not cause for concern. Some emphasized various indicators of inflation were within broader historical norms and viewed inflation expectations as anchored.

Discussion on the Outlook for Monetary Policy

Committee members shared their reactions to the June FOMC events and subsequent communications. Most noted their expectations for the path of policy, specifically with respect to the timeline for tapering of asset purchases, had not changed materially following the June FOMC. Many viewed the Fed as having acknowledged the recovery was progressing, while reiterating conditions of substantial further progress had not yet been met. Some interpreted the Chair’s remarks during the press conference as reinforcing a posture of flexibility which these committee members considered appropriate given the state of the recovery.

Views were more mixed with respect to the drivers of the flattening of the yield curve over the intermeeting period. Many suggested the market move after the June FOMC communications was driven by an unwind of some “reflation” trades. Some were surprised at the magnitude of the moves and a few thought the lower level of real yields was unlikely to persist given their expectation for continued strong growth. Many thought market technical factors had amplified the flattening of the curve, and could be less of a factor over time.

Discussion on Asset Valuations and Risks to Financial Stability

Committee members generally characterized most major asset classes as stable and did not suggest conditions were indicative of excessive risk taking. Some viewed the current economic environment as supportive of equity markets and were not overly concerned with valuation measures, which were below extremes observed historically. With respect to commodity markets, supply was seen as having responded as expected to recent price changes. Some noted high yield credit spreads to Treasuries were at historically tight levels. A few noted the outlook for segments of the commercial real estate sector was uncertain particularly given the lack of recovery for demand in office space. Committee members saw the high valuations for private equity and pre-IPO companies as indicative of market optimism, though a few suggested recent trends in SPACs as likely unsustainable, particularly given the public debate over whether there should be future regulation in this area.

Most committee members agreed vulnerabilities in cybersecurity or the potential for an attack on financial market infrastructure presented a great risk to financial stability. Some also noted the risk that a material change in the rate structure or expectations for the path of policy could cause substantial cross-asset price volatility. Spillovers from recent price declines in cryptocurrencies were generally viewed as limited, however concern was mentioned surrounding cryptocurrencies’ capacity to support anonymous cyber payments. A few also noted broader macro trends such as the U.S. fiscal deficit, a slowdown in Chinese credit markets, prolonged trade war, or decoupling of international capital markets as potentially presenting long-term risks to global financial markets.